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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 001269

SIPDIS

AF/S FOR B. NEULING
STATE PASS USAID FOR M COPSON
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
TREASURY FOR J. RALYEA AND B. CUSHMAN
USDOC FOR ROBERT TELCHIN

E.O. 12958: DECL: 09/09/2015

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ZI](#)

SUBJECT: CENTRAL BANK SWEEPS FOREX ACCOUNTS TO PAY IMF

REF: A. STATE 158016

[1](#)B. HARARE 1239

Classified By: Classified By: A/DCM Paul Weisenfeld for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary. In yet another blow to investor confidence, and a reflection of the depth to which monetary probity has sunk, the Reserve Bank of Zimbabwe (RBZ) appears to have raided private foreign currency accounts to help finance its unexpectedly large recent arrears payment to the IMF. The resident business community related systematic incidences of coerced exchange of foreign currency account balances into local currency at the official (highly undervalued) exchange rate, ever-increasing administrative delays in the disbursement of forex, and the RBZ's own active participation in the parallel currency market to raise hard currency at any cost. End Summary.

[1](#)2. (C) RBZ Governor Gono told the press on August 31 that the combined arrears payment of US\$129 million to the IMF, World Bank and Africa Development bank was sourced from exporters and free funds holders. Gono told the recent IMF mission that part of the payment was sourced from the return of flight capital, which he described as a positive response to his tightening of monetary policy (ref B). He praised the patriotism of exporters in assisting the RBZ to make foreign currency available for urgent national needs.

[1](#)3. (C) ZANU-PF MP and Chairman of the Parliamentary Committee on Lands, Land Reform, Agriculture, and Resettlement Walter Mzembe told econoffs on September 7 that RBZ Governor Gono explained to his committee on September 6 that he had taken a cocktail of measures, including emptying FCAs (foreign currency accounts), to fund the GOZ's recent US\$120 million arrears payment to the IMF. Mzembe suggested Gono had taken the action based on consultation with President Mugabe alone, and not in broader discussion with the Cabinet, as some members of the Cabinet had shown surprise at the step. Mzembe characterized the action as a &bad move8 that would not restore confidence in Zimbabwe's investment climate.

[1](#)4. (C) Numerous members of the business community recounted tales of the RBZ's recent sweep of FCAs. The Divisional Marketing Manager of Meikles Africa Hotels, confirmed to econoff on September 7 that the RBZ had converted the entire Meikles, FCA holdings (amount unstated) to Zim dollars at the official exchange rate (the official rate on September 6 was 1:24,520; parallel rate 1:47,500). She recounted Meikles Regional Commercial Director Glenn Stutchbury's assessment of the action: &daylight robbery8. The Director of Archer Clothing Manufacturers in Bulawayo told econoff that the Meikles account had held US\$45 million; Archer's company had not been affected. He also said he had heard of a safari company that had lost US\$150,000 from its FCA.

5 (C) The CEO of ZimPlats related to Econoff that Vice President Mujuru had gathered heads of major mining companies in mid-August to request foreign currency donations to fund food purchases. Soon after, the GOZ had also approached ZimPlats privately to seek a donation. ZimPlats did not provide any funds, but, according to Sebborn, the RBZ liquidated Rio Tinto's FCA to the point that its operations in Zimbabwe could come to a standstill. Sebborn believed the GOZ was seeking funds from the mining companies to repay the IMF.

[1](#)6. (C) The Australian Embassy could not confirm the alleged raid on Rio Tinto's FCA, but was aware that the RBZ had recently exchanged the US\$2.5 million foreign currency account balance of Zimpharm, a Harare-based manufacturer of cosmetics, pharmaceuticals and personal-hygiene products, for Zimbabwean currency at the official exchange rate. An Australian diplomat recounted that the RBZ had provided his embassy a Zimbabwean currency &bonus8 (amount unstated) to top up the official exchange rate as an incentive to transfer a large sum of hard currency as construction of a new embassy begins.

And in our Own Backyard(

7 (C) Founder Jakachira, the financial officer of SafeGuard, which provides security to all Embassy Harare buildings and residences, related to Econoff that the RBZ withdrew US\$38,000 (nearly half the balance) from Safeguard,s FCA on August 11, converted it at 19,000:1, and deposited it back into a non-FCA account. SafeGuard has sought to access the remaining foreign currency balance, but the RBZ has repeatedly rejected the requests based on minor administrative technicalities. Jakachira believed the RBZ was waiting for the 21 day forex holding period to pass, when it would simply confiscate the balance, alleging that the company had not complied with regulations.

Working the Lag/Calling in the Forex

18. (C) An executive of the mining sector company GAT Investments, was one of several businessmen who complained to Embassy staff that the RBZ was failing to disburse funds allocated at the twice-weekly auction. His company has not yet received foreign currency allocated to it at the August 9 auction. (N.B. The auctions allocate Z\$12.5 million twice a week, of which Z\$3-4 million go to the private sector while the rest flows back to the Reserve Bank for urgent food and fuel purchases, according local economist John Robertson.) Embassy contacts also commented that the recently implemented reduction in companies, holding period for foreign currency from 30 to 21 days had generated a one-time peak in forex inflow.

The RBZ Pumps the Parallel Market

19. (C) A Sales Executive at Western Union Money Transfer, maintained to embassy staff that the RBZ had recently built up foreign reserves by using agents abroad to buy forex overseas at the parallel market rate from diaspora Zimbabweans, who could use the favorably purchased local currency to finance purchase or construction of property in Zimbabwe.

110. (U) Finally, the Financial Gazette estimated in an article today that USD-denominated gas sales were a way for the RBZ to raise forex on the cheap.

Comment

(C) As noted in ref A, the source of Zimbabwe's recent IMF repayment does matter. Indeed, built on an unconsented sweep of FCAs, the payment delivered a severe blow to the integrity of Zimbabwe,s tenuous banking system. Made ostensibly to impress the investor community, the payment to the IMF ironically has shattered any semblance of investor confidence left in the economy, and paralyzes the operations of the very companies that have the potential to earn foreign currency. It further represents an enormous opportunity cost in terms of foregone imports of desperately needed food, fuel, and inputs. Indeed, it remains to be fully understood why Zimbabwe ever made such a large payment under these circumstances when a much smaller payment would probably have sufficed to stave off expulsion. What is clear is that this government's ruinous policies continue to dig the economy into a deeper hole and fully support a recommendation of expulsion from the IMF.

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